

*In this month's recap: Stocks dropped as rising bond yields, and recession fears pushed investors to the sidelines.*

# Monthly Economic Update

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*Presented by Ivana Lotoshynski, CFP®, October 2022*

## **U.S. Markets**

*Stocks trended lower in September as investors retreated in the face of rising bond yields and growing recession fears.*

*The Dow Jones Industrial Average dropped 8.84 percent, while the Standard & Poor's 500 Index fell 7.95 percent. The Nasdaq Composite lost 9.13 percent.<sup>1</sup>*

## **Stubborn Inflation**

*Investors came into September with optimism that the inflation report would show a meaningful decline in inflationary pressures. But the August Consumer Price Index (CPI) report showed a rise of 8.3 percent in consumer prices from a year ago, which was above consensus. Stocks sagged, and bond yields surged on the news.<sup>2</sup>*

*Though the CPI number was incrementally lower from June and July, it was the rise in core inflation (excluding energy and food prices) of 6.3 percent (an increase from its 5.9 percent rate the previous two months) that unnerved investors.<sup>2</sup>*

## **Fed's Outlook**

*The Federal Open Market Committee's (FOMC) decision to hike interest rates by 75 basis points in late September didn't come as a surprise. But what unsettled investors may have been the Fed's message that rate increases were likely to go higher for longer than the markets had anticipated.<sup>3</sup>*

*FOMC members suggested that interest rates may rise by at least another 1.25 percentage points by year-end, with short-term rates potentially reaching as high as 4.6 percent in 2023 and no rate cut likely until 2024. FOMC members also revised economic forecasts, including raising their estimates for inflation and unemployment.<sup>3</sup>*

## **Global Central Banks Follow Fed's Lead**

*Following the FOMC news, bond yields rallied. The 10-year Treasury yield increased for the eighth straight week, and the two-year Treasury yield reached yields not seen since 2007.*

*Higher rates prompted recession fears as multiple global central banks raised rates in tandem with the Fed.<sup>4</sup>*

## **Sector Scorecard**

*All industry sectors ended lower for the month, with losses in Communications Services (-11.93 percent), Consumer Discretionary (-8.40 percent), Consumer Staples (-8.73 percent), Energy (-10.53 percent), Financials (-8.14 percent), Health Care (-2.93 percent), Industrials (-10.86 percent), Materials (-9.81 percent), Real Estate (-13.95 percent), Technology (-12.35 percent), and Utilities (-11.88 percent).<sup>5</sup>*

## **What Investors May Be Talking About in October 2022**

*In mid-October, China's Communist Party will be holding its five-year planning meeting that will likely elect President Xi to a third term and possibly as "president for life." This meeting will also craft the framework for China's economic and foreign policy for the next five years.<sup>6</sup>*

*The most immediate issue is whether China will maintain its zero-COVID policy, a decision that has slowed domestic and international economic growth, affected global supply chains and resulted in rising disaffection among its citizens.*

*Observers also will be watching for any policy statements concerning Taiwan. Any Chinese talk that implies possible military action may add another geopolitical risk for the financial markets.*

*China is an essential cog in the global supply chain and an important market for Western products and services. The degree to which it pursues cooperation or confrontation will hold implications for global economies and markets in the years ahead.*

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### **TIP OF THE MONTH**



*Start a file in which you can compile your W-2s, assorted 1099s, and necessary receipts reflecting business and health care expenses and charitable gifts.*

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## World Markets

Overseas markets dropped in September as currency concerns, rising yields, and weak economic performance discouraged investors. The MSCI-EAFE Index lost 10.06 percent.<sup>7</sup>

Among European markets, Spain fell 6.59 percent, France declined 5.92 percent, and Germany slipped 5.61 percent.<sup>8</sup>

Pacific Rim markets also were under pressure, with Hong Kong shedding 13.60 percent, Australia dipping 7.34 percent, and Japan sliding 7.67 percent.<sup>9</sup>

## Indicators

**Gross Domestic Product:** The third estimate of second-quarter GDP growth was -0.6 percent on an annualized basis. The personal consumption expenditures (PCE) price index was revised higher by 0.2 percentage points to 7.3 percent, indicating continued inflationary pressures.<sup>10</sup>

**Employment:** Employers added 315,000 jobs in August. The unemployment rate rose to 3.7%, up from last month's 3.5% level, though the jump was attributable primarily to an increase in the labor participation rate, from 62.1% to 62.4%. Wages continued to grow, rising 0.3% in August and 5.2% from 12 months ago.<sup>11</sup>

**Retail Sales:** Retail sales rose 0.3 percent in August, powered by automotive sales. Excluding vehicle-related and gasoline sales, retail sales fell 0.3 percent.<sup>12</sup>

**Industrial Production:** Production at the nation's factories, mines, and utilities slipped 0.2 percent, though manufacturing output saw a slight increase of 0.1 percent.<sup>13</sup>

**Housing:** Housing starts rose 12.2 percent in August, propelled by a 28.6 percent increase in multi-family housing starts.<sup>14</sup>

Existing homes sales fell 0.4 percent from July to August and 19.9 percent from a year ago. The median sales price dropped for the second straight month.<sup>15</sup>

New home sales climbed 28.8 percent, representing the second biggest increase on record. The median price of new home sales fell from a record high of \$458,200 to \$436,800.<sup>16</sup>

**Consumer Price Index:** Consumer prices moderated in August as year-over-year inflation rose 8.3 percent, a slight decrease from its 8.5 percent pace in July and down from its recent peak of 9.1 percent in June. But core prices (excluding food and energy) rose 6.3 percent in August, up from June and July.<sup>17</sup>

**Durable Goods Orders:** For the second-consecutive month, orders of long-lasting goods fell, declining 0.2 percent in August. Excluding defense, orders were lower by 0.9 percent.<sup>18</sup>

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## QUOTE OF THE MONTH



***“When everything is known, everything acceptable will be accepted.”***

***DAVE EGGERS***

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### **The Fed**

**The Federal Open Market Committee (FOMC) announced its third consecutive 0.75 percent hike in the federal funds rate following its September 20-21 meeting.<sup>19</sup>**

**The FOMC also issued new projections suggesting that interest rates may be increased by another 1.25 percentage points by December. It also said unemployment may rise to 4.4 percent by the end of 2023 (up from August’s 3.7 percent level) and that interest rates may reach as high as 4.6 percent in 2023, with a rate cut unlikely until 2024.<sup>19</sup>**

<b>MARKET INDEX</b>	<b>Y-T-D CHANGE</b>	<b>September 2022</b>
DJIA	-20.95%	-8.84%
NASDAQ	-31.37%	-9.13%
S&P 500	-23.62%	-7.95%

<b>BOND YIELD</b>	<b>Y-T-D</b>	<b>September 2022</b>
10 YR TREASURY	2.29%	3.80%

Sources: Yahoo Finance, September 30, 2022.

*The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.*

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## THE MONTHLY RIDDLE



***Take a 5-letter word identifying a crop. Take away the first letter, and you have a form of energy. Take away the first 2 letters and you have a verb. Rearrange the 3 letters left and you have a drink. What is this 5-letter word?***

*LAST MONTH'S RIDDLE: Two boxes each hold four hot sauce packets and four soy sauce packets. Without looking, you take one packet from each box. What are the chances that at least 1 of the packets you draw is a hot sauce packet?*

*ANSWER: You have a 75% chance of picking at least 1 hot sauce packet (3 in 4). There are 4 possibilities of what you might draw out of the 2 boxes: 1 hot sauce packet and 1 soy sauce packet; 1 soy sauce packet and 1 hot sauce packet; 2 hot sauce packets; 2 soy sauce packets. So in 3 of the 4 possibilities, you'll wind up with at least 1 hot sauce packet.*

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Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions - the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The FTSEurofirst 300 Index comprises the 300 largest companies ranked by market capitalization in the FTSE Developed Europe Index. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. Established in January 1980, the All Ordinaries is the oldest index of shares in Australia. It is made up of the share prices for 500 of the largest companies listed on the Australian Securities Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The FTSE TWSE Taiwan 50 Index is a capitalization-weighted index of stocks comprising 50 companies listed on the Taiwan Stock Exchange developed by Taiwan Stock Exchange in collaboration with FTSE. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting, or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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